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MARKETING

Western Canada's Grain

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Published by

THE WINNIPEG GRAIN EXCHANGE

Winnipeg, Canada

1964

Preface

GRAIN marketing in Canada is tied to economic realities and problems of the nation's economy in a world where change and competition are inescapable facts of life. This means that the marketing system must be flexible and efficient so that it can successfully meet the challenges of a changing world and seize worthwhile opportunities as they present themselves.

Canada's grain marketing system has successfully met the tests of time for nearly two thirds of the twentieth century.

To understand how a combination of public and private enterprise can work together and market the farmers' grain with efficiency and dispatch requires a familiarity with the basic elements of Canadian economic development. This development has been one of constant adaptation to change and response to challenge. It is hoped that this resumé will add to an understanding of the problems and methods of grain marketing in Western Canada.

In the writing of this booklet, the Winnipeg Grain Exchange has retained the services of an experienced economist in the grain marketing field to assist in attaining its objective of writing the marketing story from an independent point of view. The booklet relates in an objective manner the evolution of the present system and points out the positive contributions of farmers and members of the grain trade to the marketing of the prairie crop, and thus to the welfare of western agriculture.

Many people willingly and voluntarily contributed to this booklet—to all I extend my appreciation and thanks.

Winnipeg, Manitoba.
January, 1964

JAMES W. CLARKE,
President,
The Winnipeg Grain Exchange.

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PART I

WESTERN CANADA'S GRAIN MARKETING SYSTEM

*Chapter 1***THE NATURE OF THE GRAIN MARKETING SYSTEM**

TO understand Canada's present grain marketing system, it is essential to understand something of the economic realities and problems of the Canadian economy and, indeed, something of the basic elements of the Canadian historical process. This process has involved an unending struggle with frequently adverse natural and economic forces. It has been a process of constant adaptation to change, of response to challenge. In the living, growing process of economic change, rigid advocates of the status quo, who may have been the radicals and improvisers of yesterday, will be thrown on the defensive by the radicals and improvisers of today.

Canada's grain marketing system is essentially a combination of public and private enterprise working together to market the farmer's grain with efficiency and dispatch in the best interests of the farmer and of the nation as a whole. This relationship between public and private enterprise is not unique to grain marketing but is characteristic of the Canadian economy, as in the fields of transportation, of broadcasting and telecommunications, of banking and of power development. Indeed there is no substantial segment of the Canadian economy which is not affected by some form of government aid or intervention, whether it be from the provision of credit facilities or more direct financial assistance, from government research or commercial policy, or from supervision of standards and the general welfare.

This Canadian economic characteristic does not directly derive from any doctrine of economics, politics or sociology. It grew out of Canada's history which demanded of succeeding generations the economic virtues of enterprise, compromise and adaptability. Nor is this combination of public and private enterprise the result of some new or recent theory of the welfare state. It is as old as Confederation itself. In no segment of the Canadian economy has the process been more evident or more persistent than in the settlement of the Canadian West and in the development of the Canadian grain trade.

From Confederation on a consistent principle of national policy

was the settlement of the west and the extension of the Canadian nation from sea to sea. The economic justification for the costly railway construction and prairie settlement policies lay in the agricultural potential of the western plains. The wheat economy, as it began to emerge from the grazing lands of the slaughtered buffalo, became for many years the chief instrument of national policy. Not only was great effort and ingenuity expended to induce the initial migration of peoples to the plains, but further impetus was given to expanded production during the first world war, and later when the prairies were selected for soldier settlement. The result was that, as the 1938 Royal Grain Inquiry Commission observed, throughout this period no commodity contributed more than wheat to Canada's wealth and export trade.

The federal government was consequently not only deeply involved in but increasingly dependent upon the growth and success of the prairie economy. Its national ideals as well as its huge investments in transportation and settlement policies made it inconceivable that its experiment in nation building should be allowed to fail. And when the economic benefits began to flow from western development in the form of a flood of wheat to the markets of the world, the disruption of so vital a sector of the Canadian economy could not be risked.

As western farmers strove to adapt their techniques to deal with the physical problems of production in a new and different environment, they received increasing assistance from government research programs. The record was the same in the provision of the physical facilities required for marketing their product. This was particularly true in transportation facilities and in harbours and associated development. At the same time there was large public investment in terminal elevators.

Apart from public investment in these physical facilities, there was initially little government involvement in the market system. This system grew out of the combined efforts and enterprise of individual traders and merchants. It proved sufficiently adaptable and efficient to carry Canada within the space of a very few years into the foremost position among the world wheat exporters and to transform the Winnipeg Grain Exchange into the world's largest primary wheat market.

Problems faced by farmers during the developing phase of the market system, and the need to maintain and improve the quality of grain exported, led to early regulation of the grain trade. It

was only later, when farmers, grain merchants and government had to contend with problems of wartime market disruption, of market gluts resulting from excess productive capacity relative to effective demand, and with severe economic instability, that the federal government became more directly involved in the market process. While every stage in this process witnessed some change in the relative roles within the market system of private, government and co-operative enterprise, the need for enterprise and for the private trade which survives by enterprise, remained undiminished. In fact, whether private traders functioned as principals in export transactions or as agents of the Canadian Wheat Board they still carried out the basic marketing functions, with their success being directly dependent upon their experience, judgment, initiative and vigour.

The function of a commodity market, whether it be an oriental bazaar, a cash market, futures market, or a system of public and private enterprise, is to provide a meeting place for buyer and seller and to enable them to add time and place utility to the farmer's commodity — to move the commodity where it is wanted when it is wanted in the precise amounts and grades that are wanted. In international commodity markets, extremely complex and diverse arrangements are necessary to complete this link between the producer and consumer and to relate supply to demand. Marketing involves the services of many individuals and organizations in the provision of transportation, storage, finance, insurance, processing, merchandising and related functions. In international commodity markets competition invariably rules, whatever the particular market structure may be and whether or not international commodity agreements are in effect.

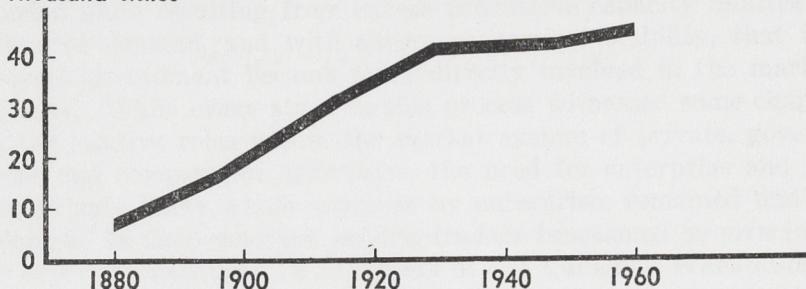
Given the fact of competition, another aspect of the function of the market place must be to facilitate and provide consistent rules for the carrying out of the mechanics of marketing. Individual traders must willingly and wholeheartedly work within the spirit of the organization to allow it to operate as it was so designed. The market may reflect but cannot solve the problems of economic and social adjustment to changes in technology and demand. It cannot be employed as a mechanism for income re-distribution and equalization without danger of detriment to its basic function. Efficiency and flexibility must be the watchwords in marketing no less than in production, if Canada is to retain an appropriate share of world markets.

PART II

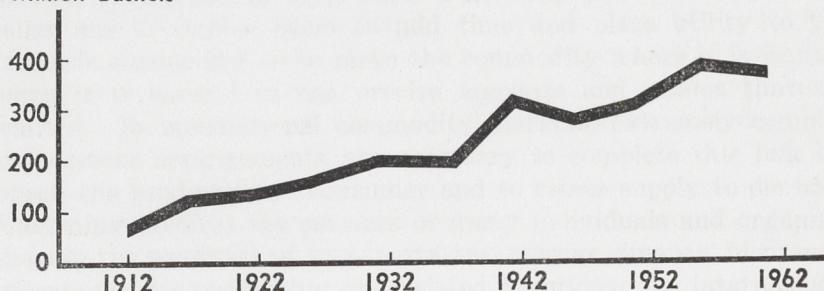
THE GROWTH OF THE CANADIAN GRAIN TRADE

CHART IRailway Mileage in Canada - Selected Years 1880-1960

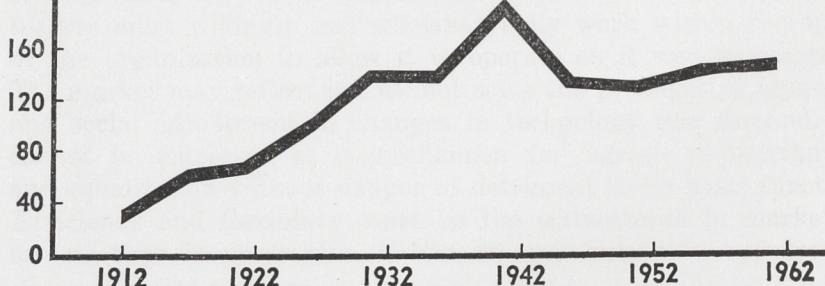
Thousand Miles

CHART IIPrairie Country Elevator Capacity - Selected Years 1912-1962

Million Bushels

CHART IIITerminal Elevator Capacity (Pacific, Interior, Churchill, Lakehead)Selected Years 1912-1962

Million Bushels



*Chapter 2***THE YEARS OF EXPANSION****Settlement of the West**

WHEN the Canadian Government purchased Rupert's Land from the Hudson's Bay Company in 1870, the agricultural potential of the prairies was still in doubt. Although Palliser had indicated in 1860 the suitability of the park belt for farming it was not until the publication of Macoun's report on the North West in 1879 that the agricultural possibilities of the plains began to attract attention.

To many the Canadian Government's expansionist policies of railway construction and prairie settlement looked like a wild gamble. The early settlers had to contend with the natural hazards of drought, hail, and grasshoppers. They had to face problems of transitional social unrest and even rebellion. They had to struggle with economic problems of low prices, due to prolonged worldwide depression, and of high costs associated with inadequate transportation facilities in an area far removed from world markets. Finally, they had to experiment with agricultural techniques not yet adapted to prairie conditions. The flood tide of settlement had to await the development of early varieties of spring wheat and of dry farming techniques suitable to the semi-arid plains. It had to await a major expansion in effective world demand which depended upon rapid industrialization and urbanization in Europe and upon revolutionary improvements in transportation methods and milling techniques. Towards the end of the nineteenth century these forces, reinforced by reduced freight costs on the prairies and rising prices on world markets, encouraged a period of extremely rapid settlement. In 1897 immigration into Canada was less than 17,000. In 1902 it was four times as great. In 1911 it reached a total of 311,000. By 1914 the settlement of a major part of the last agricultural frontier was virtually complete.

Growth of Competition and Regulation

The first shipment of western wheat moved to Eastern Canada

in 1876 by steamboat and rail to Duluth and then east by the Great Lakes. Soon the flow of prairie wheat was following an all-Canadian route. This movement, exceeding 100 thousand bushels by 1880, required the establishment of a market where dealers and millers could meet for the transaction of business. Winnipeg merchants finally achieved their goal in 1887 with the establishment of the Winnipeg Grain and Produce Exchange, soon to expand into the largest grain market in the world. The Exchange was incorporated in 1891 and ten years later, a grain futures market and clearing house was established. The futures market, by providing an insurance to merchants and processors through the hedging mechanism, reduced the element of risk in the marketing process, and so narrowed the price margin between producer and consumer. In 1908 the Exchange was reorganized in its present form as a voluntary, non-incorporated, self-governing association founded upon the consent and integrity of its members, based upon a mutual contract contained in its constitution, and designed to provide a set of rules and a meeting place for traders in grain. The Winnipeg Grain Exchange has never engaged in trading. Its function has always been to provide a market place — the facilities and organization by means of which its members can place Canada's grain in the consuming markets of the world as rapidly as possible and at minimum cost.

Although the establishment of a grain exchange was a large and essential step forward in the efficient marketing of prairie grain, it could not, in the nature of things, eliminate the very real economic problems faced by the settlers. The developing Canadian grain market mechanism performed with increasing efficiency the basic market function of effecting the complex and geographically widespread arrangements necessary to move grain from the farm to the ultimate consumer. It helped move the product of the prairie farm to the specific place it was needed at the exact time required. It widened the farmer's market and narrowed the marketing costs between the farm and the final consumer. These were vital contributions to the economy of the prairies and of the individual settler. But the farmer faced problems beyond the capacity of any market to solve. Variability of supply under conditions of fixed or rising costs and an inelastic world demand combined to form the typical economic dilemma which has always tended to enmesh any primary producer. Inevitably the farmer suffered from frequent and severe yield and price fluctuations with corresponding fluctuations in his income.

In these early years very few people, whether personally involved or merely observers, realized how deep seated were these problems. There was an almost universal failure to distinguish between market and income problems. Broadly speaking, during the years of expansion up to the first World War, the western farmer tried to solve his problems by seeking a more competitive and efficient market structure. A still developing economy inevitably contains elements of natural monopoly in transportation, warehousing and other functions affecting the marketing of the farmer's crop. In his attempt to solve these problems, the farmer not only displayed the same initiative and enterprise that had enabled him to subdue a new and frequently hostile environment, but he shrewdly realized that the improvements he sought lay to a considerable extent in the area of public policy.

The cost of transportation, due to the lack of competitive rates, formed one of the principal grievances of the western farmer. Eventually western efforts were successful in securing the cancellation of the railway monopoly clause in 1888 and the appointment of a railway rates commission in 1894. Although the Crowsnest Pass Agreement of 1897 achieved rate stabilization of immense benefit to prairie farmers, transportation costs could not fail to remain a major preoccupation in the prairie economy.

The inadequate network of country elevators was another problem inherent in the development stage of the prairie economy. The Canadian Pacific Railway attempted to correct this situation by offering a monopoly of car-loading to individuals or companies who would construct standard elevators of not less than 25,000 bushel capacity. While this policy expanded the elevator network the farmer felt that the technical advantages of this development were more than offset by the disadvantages resulting from the total absence of elevator competition at the country points. Farm protests resulted in the establishment of a Royal Commission in 1899 which found that the two main obstacles to efficient organization of the trade were the elevator monopoly of car-loading and an absence of regulation of grain dealers. The Manitoba Grain Act of 1900 embodied the principal recommendations of the Commission. By regulating the grain dealers and by providing assurances that the farmer could load over the platform, the Act widened the field of competition in grain buying at country points.

However, as a result of a continued feeling that the railway discriminated against farmers in car distribution, the Territorial

Grain Growers' Association was formed and by its pressure secured an amendment to the Manitoba Grain Act in 1903 which largely eliminated complaints regarding car distribution. Further legislative regulation was achieved with the passage of the Canada Grain Act of 1912 and the establishment of the Board of Grain Commissioners. The Act emphasized regulation in the interests of the producer and strict grade standards in the interests of maintaining the competitive position of Canadian wheat in world markets. Despite periodic revision, no fundamental change in regulatory legislation has since been found necessary.

Having achieved favourable statutory rail rates in the absence of competitive rates and enhanced competition through car-loading privileges and regulation of the trade, farmers felt they would benefit by still further competition in the organized trade. To this end the Grain Growers' Grain Company was formed in 1906, beginning operations on a commission basis. Competition in the ownership and operation of elevators next engaged the interest of farmers. Under pressure from the Manitoba Grain Growers' Association, the Manitoba Government Elevator Company was formed in 1910 and two years later its elevators were leased to the Grain Growers' Grain Company. In 1911, following the Magill Commission which reported favourably on increasing competition in the elevator field, the Saskatchewan Co-operative Elevator Company began operations with the aid of provincial loans. The Alberta Farmers' Co-operative Elevator Company, modelled along similar lines, was organized in 1913 and in 1917 joined the Grain Growers' Grain Company to form United Grain Growers Limited.

Thus before the first World War not only was grain transport, marketing and storage subject to comprehensive federal regulation but intervention by different levels of government was firmly established. This intervention was designed to improve marketing efficiency and increase competition and not to interfere with the basic mechanism of the market. Although the western farmer had achieved all his specific goals relative to a highly competitive and efficient marketing system, he was conscious that his deep-seated economic problems remained. It was perhaps inevitable that, with a remarkable record of success behind him, he should have continued his efforts to solve his basic income problems through the mechanism of the market.

Initial Experience in Government Trading

Centralized buying by the Allied Powers during World War I

was largely responsible for a far-reaching change in producer attitude toward marketing policy. Unusual wartime conditions forced a temporary departure from traditional practices and marketing methods in the international grain trade when, in 1917, the Allied Powers resorted to centralized buying of North American grain through the Wheat Export Company operating in Winnipeg and New York. In response Canada and the United States both adopted centralized selling through the Food Administration Grain Corporation in the United States and the Board of Grain Supervisors in Canada.

Between September 1, 1917, and July 21, 1919, the Board of Grain Supervisors was authorized to fix a government guaranteed price at which grain should be sold, whether for export or domestic consumption. Before the closing of the wheat futures market on the Winnipeg Grain Exchange, prices had advanced under pressure of wartime demands. In these circumstances the Board was able to pay relatively high prices which were fixed throughout each crop year. Although producers could scarcely have been other than impressed by both the level and stability of prices during this period, the level of prices was the result of wartime demands; the growing interest in price stability marked a basic shift away from the producers' earlier goal of improving competition and efficiency in the trade to the goal of price and income stability through centralized selling by a government marketing board. In the circumstances it was perhaps natural enough to assume an easy identity of price and income goals and to conclude that a solution to the farmer's price and income problems could be found through the market mechanism without detriment to his earlier goal of maximum efficiency in the marketing of his product.

After a brief resumption of futures trading in July, 1919, the Government decided, in view of continued postwar market uncertainties, to establish a Canadian Wheat Board to market the 1919 crop. In contrast to the fixed price paid by the Board of Grain Supervisors, the Wheat Board (1) made an initial payment on delivery of \$2.15 a bushel basis No. 1 Northern, Fort William, (2) pooled returns from the sale of the producers' grain, and (3) issued participation certificates entitling the holder to his share in any surplus. There was some doubt among farmers as to the value of the participation certificates; the strength of world prices enabled the Board to realize a final price of \$2.63 and unquestionably this experience in public pooling impressed the farmers.

The Government's refusal to extend the life of the Wheat Board signalled a return to the earlier regulative function of government and to the traditional policy of improving competitive conditions in the trade.

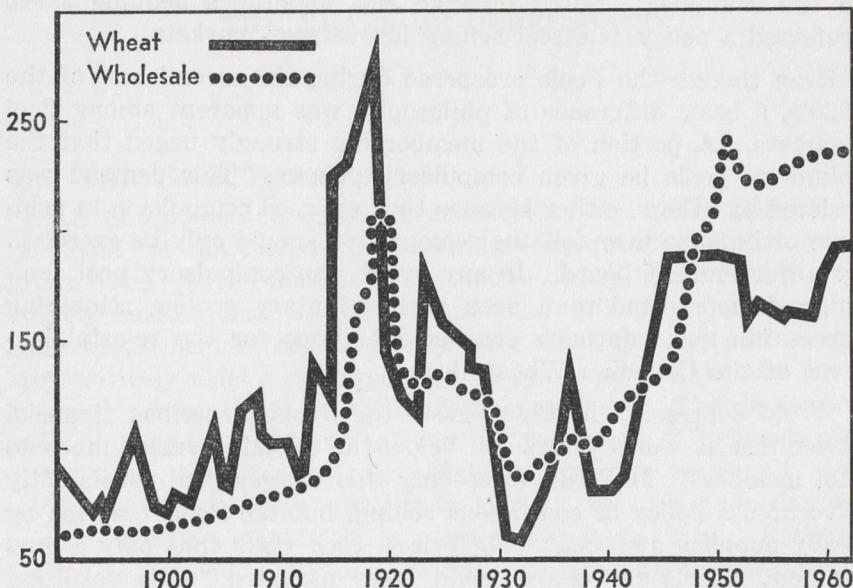
The grain trade acknowledged that unusual wartime conditions justified the exceptional measures taken but held that the return of peace time conditions called for a return to peace time practices. For most farmers there was little disposition for such a return, particularly when the resumption of normal trading at the opening of the 1920 crop year coincided with falling prices on the world market. There was an understandable tendency to disregard the fact that any market, even government boards, must contend with such tangible realities as world demands and that the Wheat Board and its predecessor had enjoyed the benefits of inflated wartime prices. Be that as it may, it would be difficult to exaggerate the effect that three years of government marketing under favourable conditions had on the thinking of western wheat growers and on the subsequent history of the Canadian grain trade. For a majority of farmers the primary objective had shifted from marketing efficiency to price and income stability. To achieve this they continued to press for a return to the Wheat Board system of marketing. These efforts were opposed with equal vigour on the dual grounds that in a free society compulsion was wrong in principle, except in national emergencies, and that the pursuit of income goals through the market mechanism would have damaging consequences from a competitive point of view.

Experience in Private Pooling

The post-war difficulties of prairie farmers were real and pressing as Chart IV clearly shows. Not only did world prices fall precipitously after the end of the war, but general economic trends which had been relatively favourable for the farmer during the years of expansion now began to turn against him. Before 1920 the wheat price index remained above the wholesale price index. After 1920 the position was not only generally reversed but complicated by violent fluctuations in world prices. With even economists scarcely aware of the deep-seated economic forces at work, it was natural enough that farmers should have sought an institutional explanation and blamed the "Grain Exchange" and "Speculative Marketing" for their distress. The hard fact is that the farmer required a better price: through his organization he sought the income security which his wartime experience had led him to

CHART IV

Canada: General wholesale price index and
wheat price index — 1891-1962 (1935-39 = 100)



associate with national pooling through the Canadian Wheat Board. When a three-year campaign for the re-establishment of the Wheat Board failed, he turned his attention to organizing a private pooling agency to perform the same function. He had lost much of his interest in the market contributions of the old co-operative elevator companies. Before 1920, as Professor Mackintosh saw it, "the prairie farmer . . . wished to amend marketing agencies and practices; after 1920 he wished to revolutionize them. Whereas the old co-operatives had worked within the existing trade organization, the pools were designed to revolutionize them."

The missionary zeal of Aaron Sapiro, the California apostle of co-operative marketing, the enthusiasm and persistence of western farm organizations, and able leaders of the calibre of A. J. McPhail and Henry Wise Wood, were all ingredients in the successful organization of voluntary contract pools in the prairie provinces in 1923 and 1924. The Pools immediately began to acquire country and terminal handling facilities. The Saskatchewan Wheat Pool

absorbed the Saskatchewan Co-operative Elevator Company in 1926. In the last half of the twenties wheat farmers contracted over 50 per cent of their acreage to the Pools. The three Pools established a Central Selling Agency which, while holding seats on the Winnipeg Grain Exchange and sometimes hedging sales, preferred a policy of direct selling in overseas markets.

Even though the Pools prospered during the second half of the 1920's, a basic difference of philosophy was apparent among Pool members. A portion of the membership strongly urged that the voluntary pools be given compulsory powers. This demand was resisted by others, either because they opposed compulsion in principle or because they felt that compulsion should only be exercised by a government board. In any event, the compulsory pool campaign demonstrated that, even with voluntary pooling remaining successful, many farmers continued to hope for the re-establishment of the Canadian Wheat Board.

World depression in 1929 placed the Pools in serious financial difficulties as world prices fell below the initial payment made to pool members. McPhail, foreseeing this danger, had consistently advocated a policy of continuous selling, but the Pools tempted by heavy supplies and weakening prices, took risks that only a government marketing board could have assumed. The resulting losses were underwritten during the 1929 crop year by the provincial governments guaranteeing the Pools' bank credit. When the same dilemma recurred the following year, the federal government took steps to protect the Pools' credit with the banks and appointed John I. McFarland as manager of Central Selling Agency. This Agency was to function as a semi-public holding and stabilization body throughout the depression years until the re-establishment of the Canadian Wheat Board in 1935.

*Chapter 3***THE YEARS OF DEPRESSION****The World Grain Trade in Crisis**

THE unprecedeted economic disasters of the Great Depression could not fail to have far-reaching consequences for the world grain trade. The function of market prices is to achieve the relatively smooth and effective adjustment of supply and demand. Such adjustment is comparatively easy when demand and supply are relatively elastic or responsive to price movements and when adequate alternatives are available to producers. The depression made it abundantly clear that for the producers of primary products these conditions rarely obtained. In this respect a comparison of the six years, 1923-24 to 1928-29, with the following six years, 1929-30 to 1933-34, is particularly instructive. Between these two periods, while average Canadian wheat prices were falling by approximately one half, exports were also falling by one third. Not only did demand fail to respond to this decline in price but, due to the lack of reasonable and profitable alternative crops or markets, producers did not make effective supply response. Indeed, between these two periods they increased their average wheat acreage from just over 21 million to nearly 25 million acres to try to compensate for lower prices by increased production. Increased acres and reduced exports combined to increase the average carryover from 65 million to 173 million bushels.

The differing impact of the depression on agricultural and industrial price levels, as a consequence of differing elasticities of demand in the agricultural and industrial sectors and the differing nature of their cost and price structures, made these developments particularly disastrous to farmers.

These differences, in turn, resulted in fundamentally different reactions to the fall in demand on the part of agriculture and industry. Agriculture maintained production at the expense of successive price declines, while industry maintained prices by successive reductions in output. One result was a serious worsening

of the terms of trade of the primary producing countries. Under depression conditions, characterized by competitive pricing in agriculture and varying degrees of administered pricing in industry, the mechanism of relative prices could not become the self-adjusting process or achieve the efficient allocation of resources postulated by the classical economists.

The disruption of the international economy contributed to instability in commodity markets; growing disequilibrium in commodity markets (notably in the case of wheat) in turn contributed to the general weakening of world trade. The effect of this relative world over-production of primary commodities was that in Canada major declines in commodity prices and incomes preceded by a year the declines which took place in new investment, trade, income and employment as the world sank into depression. It was the decline in income from primary products and especially from wheat which led Canada into the Great Depression.

Canadian wheat prices, accurately reflecting world commodity price movements, fell from a high of \$1.79 in 1929 to a low of 51 cents in 1930 and 1931. In 1932, December futures on the Winnipeg Grain Exchange reached an all time low of 38 cents a bushel. In the decade of the 1930's the only respite in this dismal picture of depressed prices came as a product of crop failures in 1936 and 1937. The comparative inflexibility of farm costs increased the impact of price fluctuations on farm income. As a result, the net income of Saskatchewan farmers from farming operations remained negative for five of the seven years 1931 to 1937. The domestic wheat prices in the major wheat exporting countries were far below unit costs of production during the greater part of the thirties — a situation reflecting uneconomic production, depletion of capital and the almost universal subsidization of wheat.

The result of these conditions was destitution on wheat farms throughout the world. The burden of debt contracted during periods of prosperity could no longer be supported nor property taxes be met. In areas where drought added to farmers' difficulties the exodus of farm populations, despite an absence of alternative employment, was typical of the thirties. Importing countries employed every conceivable device to protect their own producers from the effects of cheap imports, while exporters were forced to counter with further producer or export subsidies.

In the absence of a co-ordinated program to expand consumption

on a world scale, it was natural, once the consequences of unilateral national subsidization programs became apparent, that international efforts would be made to limit production and exports to correct the imbalance in the world wheat economy. An international Wheat Agreement, based on export quotas and production limitation, was negotiated and signed in 1933, when wheat surpluses reached their peak during the depression years. The Agreement collapsed almost before it began; under conditions of depression attempts to solve the wheat problem through restriction, either of output or of exports, inevitably placed the burden of adjustment almost entirely on the primary producing countries who were the least able to adjust.

Out of the disasters and conflicts of the depression, the danger was that merchants and farmers might take diametrically opposed positions towards the market, the former tending to expect too much from the market mechanism and the latter seeking its discard. A more realistic middle position began to emerge with growing understanding of the hard, inescapable facts. The chief lesson learned was that public policies may be essential to maintain high levels of employment and income and to smooth the process of economic adjustment. While reliance should never have been and could never again be placed solely on a self-regulating price system to cure depression or serious economic maladjustment, it was equally clear that there should be no diminution in the essential role of the market place in securing the economic advantages of competition and contributing to the growth of international specialization and trade. The problems of the wheat economy, perhaps more than those of any other single economic activity, contributed to this revolution in economic thought. The failure of governments to effect the required adjustments, whether by unilateral action or in co-operation, had demonstrated that the solution to disequilibrium in commodity markets could only follow a solution to the general economic problem created by a lack of effective demand.

Fundamental improvements in living standards, by reducing the need for protection in developed countries and by increasing incomes in under-developed countries, would improve the demand for wheat, while on the supply side, high and rising levels of domestic and international investment, of employment and trade, could provide alternative opportunities for resources engaged in wheat production. Under these circumstances, if supported by ap-

propriate national policies to aid adjustment and by international agreement to prevent the disruption of markets and the resulting train of incompatible national policies, the mechanism of relative prices could provide both the guide and the incentives necessary to work toward a better balance in the wheat economy.

Return to Government Participation in Wheat Marketing in Canada Stabilization Operations

Disaster conditions on the Canadian prairies forced the government again to intervene in the wheat market which it had abandoned after World War I. Initially its purpose was merely to extend emergency assistance to wheat farmers through the machinery of the Pools' Central Selling Agency. Had the government not adopted this policy, according to Prime Minister R. B. Bennett, the alternative would have been "stark, complete, absolute disaster beyond the ability of any man to see." The government, however, was not yet aware of the deep-seated forces which would prevent any return in the future to a policy of complete non-intervention. As the experiences of the thirties unfolded, the question of intervention ceased to be the essential issue. Rather the issue became one of evolving a market structure which would combine the requirements of efficient marketing with reasonable income protection to producers.

The period of active market support began before July 31, 1931, under McFarland's direction under the authority of an Order-in-Council. However, more extensive stabilization operations, which took the form of absorbing hedges by the Central Selling Agency, did not begin until October, 1932 when market prices were approaching the lowest level of the depression. The Agency made purchases on stabilization account when, in McFarland's opinion, market conditions demanded it and made sales when he thought it could do so to best advantage. Twice during the four years prices were "pegged" on the Winnipeg market, with the Agency buying the hedges at the pegged price when other buyers failed to enter the market. During the second period of price pegging, December futures were at 75 cents and May futures were at 80 cents. By May 31, 1935, in addition to the 76 million bushel Pool carryover which the Agency had assumed and converted into futures at an early period, the Agency held approximately 152 million bushels in futures on stabilization account. Together these holdings represented almost the entire visible supply of Canadian

wheat. At its maximum, the Agency's bank indebtedness had reached a total of \$80 million under federal guarantee.

In August, 1935, when the Canadian Wheat Board was established, stabilization operations were replaced by a minimum price guarantee as the basic means of protecting the producers' income. To the Board were transferred on December 2, the Agency's holdings of some 205 million bushels of wheat and futures. To this was added slightly over 90 million bushels of wheat and futures in respect to the 1935 crop. In December the Board began the liquidation of these stocks under greatly improved market conditions. By the end of the 1935-36 crop year the Board had still on hand some 82.7 million bushels of stabilization wheat and 2 million bushels of the 1935 crop. The Board fixed a price of 87½ cents for the 1935 crop and suffered a net loss of \$11.9 million on its operations; this was largely offset by a profit of \$9.6 million realized by the Board from the liquidation of stabilization stocks by the end of the 1936-37 crop year.

McFarland's stabilization operations aroused greater controversy than any earlier intervention by government in wheat marketing. The reason for this was expressed by W. S. Evans when he remarked that "A minimum price to producers is essentially a political and sociological question . . . Unless adjustment is attempted through market price, the matter is not to be judged from the market point of view." The trade had, in fact, accepted the validity of the producer's goal of reasonable income security, but it feared the consequences of any measures tending to undermine the competitive position of Canadian wheat in world markets. The trade argued that price maintenance could only be damaging to the producer if it resulted in the loss of markets. Faced by this criticism, by the vulnerability of improvised measures lacking legislative authority, and by increasing producer pressure for a national marketing board, the government decided on a basic change of policy. Although still accepting a measure of public responsibility in the carrying of temporary surpluses, the new policy followed Evans' advice by providing producers with a minimum price while pursuing a course of competitive selling on world markets. After an interval of fifteen years the Wheat Board was re-established, this time on a voluntary basis.

The Canadian Wheat Board

When the Canadian Grain Board Bill was first introduced on June 10, 1935, it provided for monopoly powers respecting the con-

trol of grain elevators and the sale of western grains in inter-provincial and export markets. After extensive modifications in committee, the Canadian Wheat Board Act of 1935, although retaining monopoly powers in the unproclaimed sections of the Act, provided for a voluntary wheat marketing agency to purchase wheat from farmers at a fixed price and to issue participation certificates which entitled the producers delivering to the Board to receive a share of any profits realized. The farmer possessed complete freedom of choice with regard to the method of marketing his wheat. Should the market price fall below that set by the Board, it was expected that the Board would receive virtually all the wheat delivered but should the price remain above that of the Board, farmers' deliveries to the Board depended on whether they preferred pooling, with the hope of a subsequent payment, to the immediate advantages of the higher market price.

The Board was not a repetition of the monopoly board of 1919, but more nearly reconstituted the essential elements of the former contract Pools except that its initial payments were underwritten by an unlimited guarantee of the federal government. In this respect, as one authority on the grain trade observed, the Wheat Board Act of 1935 was "not a radical or new move in marketing method but merely a natural development from the past, of which the stabilization measures were a transition phase." After fifteen years, the farmers' objective of a floor price for wheat had finally received statutory enactment.

The Board's selling policy broke sharply with previous stabilization policy. The Act instructed the Board to sell and dispose of wheat which it might acquire "for such prices as it may consider reasonable, with the object of promoting the sale and the use of Canadian wheat in world markets." It was to dispose of stabilization stocks "having regard to economic and other conditions" and to "offer continuously wheat for sale in the markets of the world through the established channels." For the purpose of marketing the Board was to "utilize and employ without discrimination such marketing agencies . . . engaged in or operating facilities for the selling and handling of wheat, as the Board in its discretion may determine," and if it felt existing marketing agencies were failing to operate satisfactorily it was empowered to establish agencies of its own. In practice the Board used the facilities of the organized trade, signing agreements with country and terminal elevators, mills and other grain handling organizations.

In marketing its holdings, the Board found it convenient and necessary to use the facilities of the Winnipeg Grain Exchange, because the Exchange was almost invariably used by the trade in initiating and hedging sales or purchases of actual cash wheat. The Board, of course, did not hedge its cash wheat purchases which could only be made from producers, but it continued the normal trade practice of taking over buying hedges from the purchasers of wheat. Since it could enter the futures market only on the selling side, it could not pursue stabilization operations. The government had clearly repudiated the theory of market stabilization and had adopted a selling policy designed to meet competition in the markets of the world. In December, 1935, this sales policy was restated by the Minister of Trade and Commerce in the newly elected government. He emphasized the government's desire to have the wheat surplus "restored to a normal basis" and added that to do this the Wheat Board would seek "the good will and co-operation of the grain milling trades in all importing countries." It was not necessary, he concluded, "to have and there will not be any 'fire sale' of Canadian Wheat, but it will be for sale at competitive values and will not be held at exorbitant premiums over other wheats." In the Canadian tradition of compromise, the new Wheat Board system had, to a considerable extent, resolved the conflict between marketing efficiency and the producer's need for basic income protection.

CHART V
Canadian Wheat Acreage - Selected Years 1900-1960

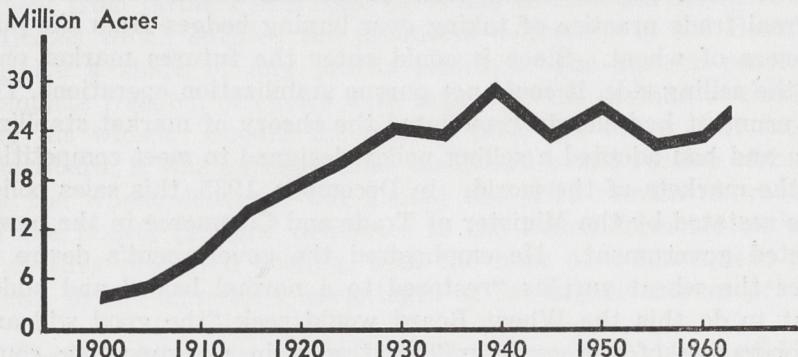
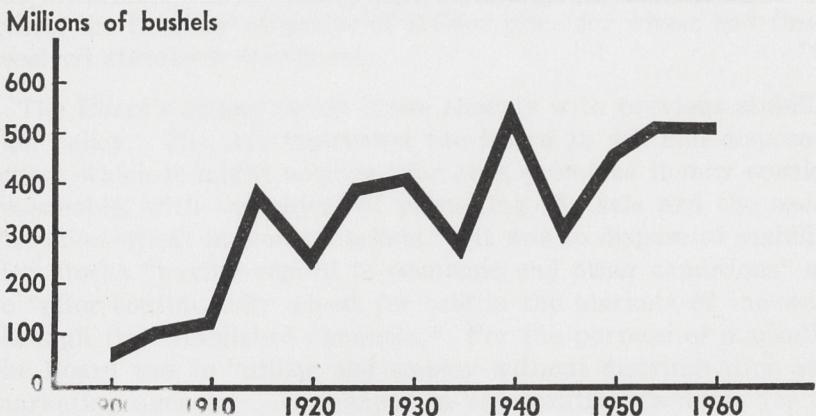


CHART VI
Canadian Wheat Production — Selected Years 1900-1960



Chapter 4

THE YEARS OF ADJUSTMENT

Pre-War Wheat Policies

BEFORE the end of the Wheat Board's first year of operations, the new federal government appointed the Royal Grain Inquiry Commission under Mr. Justice Turgeon. Aware that the previous Turgeon Commission of 1925 and the Stamp Commission of 1931 had recommended no essential change in the futures marketing system, the government made no attempt to formulate a permanent wheat policy until the findings of the new Commission were available. In the interim the government appeared to view the Board as a means of providing emergency support and not as an alternative means of marketing the farmer's wheat. Concerned by the loss on the Board's first year of operations and encouraged by the rapid sale of Board stocks, the government authorized the continuation of the 87½ cent initial payment for the following two years on condition that the Board price would become effective only when the market price fell below 90 cents. Since poor crops kept prices above this level, the Board provided a floor price but did not function as a marketing agency.

The wheat situation changed markedly during the 1938-39 crop year. Good yields and record acreage resulted in world wheat production reaching an all-time peak. A renewal of export subsidies and a deteriorating international situation further demoralized the world grain market. Under these circumstances the Canadian Wheat Board resumed active participation in the wheat market. The initial price was set at 80 cents with the Board offering wheat for sale at competitive prices throughout the year. World prices fell well below the support level and the Board sustained a loss of over \$60 million on the year's operations.

In view of these heavy losses, the government welcomed the Royal Commission's recommendations that under "normal conditions" it should remain out of the grain trade, that wheat should be marketed through the futures market system and that encouragement should be given to the creation of co-operative marketing

associations or Pools. To achieve these ends the Wheat Board Act was amended in 1939 to limit each producer's deliveries to the Board to 5000 bushels, and to fix the initial price at 70 cents. At the same time the Wheat Co-operative Marketing Act was passed to encourage a return to private pooling. But conditions were far from normal. Conscious of growing international uncertainty, mounting surpluses and the great importance of prairie grain to the national economy, Turgeon recommended that "the Board be maintained to meet any situation that may arise." These considerations, reinforced by vehement farmer support for the Wheat Board, were soon to cancel out the tentative effort by the government to withdraw from the wheat market. The original intent behind the voluntary Board had been to protect the farmer from the worst effects of adverse developments in the international wheat market. The Board, with the national credit behind it, ensured that the burden of these adverse developments would not fall entirely upon the farmer.

Wartime Wheat Policies

Following the outbreak of war in 1939, wheat policies were made to serve the requirements of the national economy with wheat prices playing an important part in an overall system of price control. Loss of European markets resulted in surpluses increasing to unprecedented levels. To prevent further increases and to encourage dairy and livestock production, the government in 1941 undertook a diversification program which involved severe limitations on total and individual marketings of wheat, acreage payments for wheat lands diverted to coarse grains, grass and summerfallow and, until 1942, the maintenance of the initial price at the depression level of 70 cents. The income effects of the diversification program were particularly severe in those areas where alternatives to wheat production were limited.

The early war years were bound to demand difficult readjustments in the wheat economy but, as one authority has remarked, "the general wartime controls instituted to keep down prices applied more severely to wheat than to any other commodity." Aware of the depressed condition of prairie incomes, the government instituted in 1940 a processing levy on wheat milled for domestic purposes but the levy was quickly discontinued as price control objectives became paramount. In view of the importance of the wheat economy to the nation's war effort it is questionable whether it was either necessary or wise to permit regional income declines

of such magnitude in the pursuit of national price control and production policies.

The open market and the voluntary Board continued to function together during the early years of the war. However, following a sharp rise in the price of wheat, which added directly to the cost of Canadian Mutual Aid and millers' subsidies adopted to hold down the domestic price of bread, the government, on September 27, 1943, announced policy changes of far-reaching significance. Wheat trading was discontinued on the Winnipeg Grain Exchange, the initial payment was raised to \$1.25 and the compulsory Board took over at closing market prices all unsold wheat in commercial positions in Canada. This government-owned wheat was then employed to meet the requirements of subsidized domestic consumption and of Mutual Aid.

It may have seemed paradoxical, from the farmers' point of view, that the government should have attempted to restrict the operations of the Wheat Board in 1939 when grain markets and prices were depressed, only to grant the Board compulsory marketing powers in 1943 to hold down the price of wheat. In fact, while the second adoption of a compulsory Wheat Board was designed as an empirical solution to the immediate problem of stabilizing the national economy and holding down the costs of wartime aid, it was destined, unlike the first Wheat Board, to become more than a wartime expedient.

Out of the experiences of depression and war, high and stable levels of income and employment had emerged as the major goal of economic policy in most of the countries of the western world. One corollary of the Canadian government's aim to stabilize the national economy in the post-war reconstruction period was the achievement of greater income stability in the wheat economy. Thus prompted by broader considerations of national economic policy the government had begun in effect to pursue the farmers' long-sought goal of greater income stability. Differences on policies which were followed during the reconstruction period revolved, not around these generally accepted goals, but around means.

Wheat Policies during Reconstruction

The immediate object of wheat policy at the end of the war was twofold: to control domestic inflation while proceeding with the orderly decontrol of the national economy, and to meet the urgent European and Asian food requirements while keeping down the

cost of Mutual Aid and other forms of financial assistance. Beyond the immediate threat of inflation lay the threat of deflationary forces both in the domestic and foreign trade sectors. In the domestic economy the less serious the inflation, the less serious would be any subsequent deflation. In the export sector moderate prices would not only assist in maintaining good will in overseas markets but, in view of the breakdown in the multilateral payments system, moderate prices would limit governmental outlays arising out of financing a substantial part of our exports with their inflationary implications and inevitable threat to Canada's balance of payments, particularly with the United States.

Aware of the very moderate prices at which wheat was being sold in the domestic and export markets, the government promised producers to stabilize wheat prices in the post-war period. This policy arose in part from a desire to employ wheat in a stabilizing role, not only to counter immediate inflation, but to counter the subsequent deflationary forces then widely anticipated. Apparently little thought was given to the possible risk that if depression should fail to materialize the farmer might find himself uncompensated for having accepted a reduction in his income during the inflationary period.

These considerations of full employment, inflation, foreign trade, and balance of payments were all significant in shaping wheat policy in the transition period from war to peace. Producer interest in reasonable income security, which was greatly strengthened by the depression, made it politically feasible for the government to follow a wheat policy designed primarily for reasons of national economic policy. This policy was given concrete form in 1946 by the signing of the Canada United Kingdom Wheat Agreement, the creation of its domestic complement, the five-year pool, and the extension of the Wheat Board monopoly for the duration of the Agreement. Throughout these five years the world wheat situation was characterized by short supplies, buoyant demand and skyrocketing prices, with the greater part of North American wheat exports being paid for by credit arrangements or by Marshall Plan funds.

On September 19, 1945, the federal government announced that for the time being Canadian wheat would be offered for export at a price not exceeding \$1.55 per bushel. Not only was the wartime policy of export price restraint carried over into the post-war years but the domestic price was restricted even more severely to

CHART VII
Number of Prairie Farms
Selected Years 1881-1961

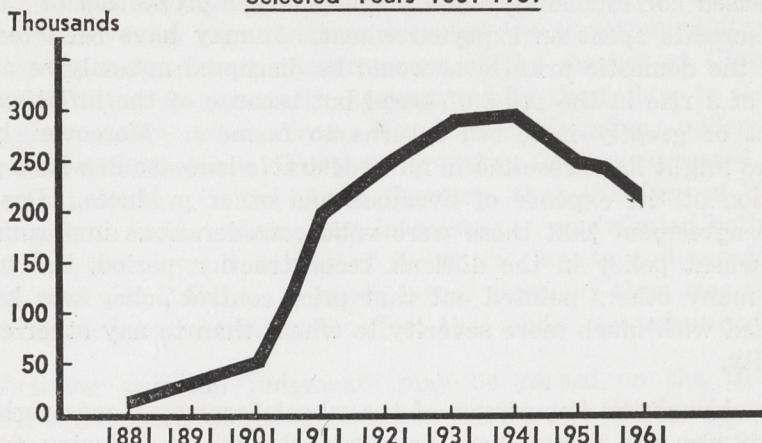
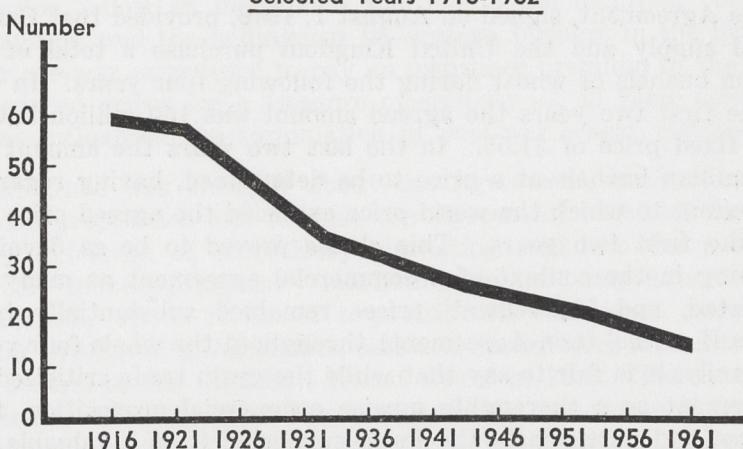


CHART VIII
Licensed Prairie Elevator Companies
(With More than 10 Elevators)
Selected Years 1916-1962



\$1.25 while drawbacks continued to keep the consumer price at 77 $\frac{3}{8}$ cents. The initial payment was also kept at \$1.25. The government appeared to reason that if prices were permitted to rise to world levels, domestic consumer subsidies would have to be increased correspondingly and a much larger proportion of Canadian credits spent on exported wheat. It may have been feared that the domestic price level would be disrupted not only as a result of a rise in the price of bread but because of the inflationary effect of greatly increased returns to farmers. Moreover, high prices might have resulted in an undesirable increase in wheat production at the expense of livestock and other products. Despite wide agreement that these were valid considerations in formulating wheat policy in the difficult reconstruction period, the trade and many others pointed out that price control policy was being applied with much more severity to wheat than to any other commodity.

In view of the importance of the wheat economy it was perhaps logical for the government to select the wheat industry for a special role in stabilizing the national economy; but the dualism in government policy in applying anti-inflationary measures to the wheat economy while encouraging industrial expansion at the cost of severe inflation, thus inflating the farmers' costs, is not without significance in evaluating post-war wheat policy and, in particular, the final settlement of the British Wheat Agreement.

The Agreement, signed on August 1, 1946, provided that Canada would supply and the United Kingdom purchase a total of 600 million bushels of wheat during the following four years. In each of the first two years the agreed amount was 160 million bushels at a fixed price of \$1.55. In the last two years the amount was 140 million bushels at a price to be determined, having regard to the extent to which the world price exceeded the agreed price during the first two years. This clause proved to be as devoid of meaning in the context of a commercial agreement as many had predicted, and 'Agreement' prices remained substantially below 'Class II prices' (non-Agreement) throughout the whole four years. Generally, it is fair to say that while the grain trade criticized the Agreement as a thoroughly unwise commercial proposition, farm groups, and particularly the Pools supported it as a valuable contribution to price stability.

No one, however, was happy with the final outcome. Trade estimates of commercial losses based on Class II prices ranged

above half a billion dollars. The government took the position that, owing to the near bankruptcy of the main buyers of wheat, there was a commercial market at Class II prices for only marginal quantities of wheat. Nevertheless, it felt that farmers had a case for some adjustment and paid \$65 million into the Pool. In general farmers and farm organizations accepted the government's argument with respect to the narrowness of the market at Class II prices, but they were bitterly disappointed by the failure to secure any price compensation from the United Kingdom under the "have-regard-to" clause. Furthermore, they felt, as expressed in a statement by the United Grain Growers, that the farmer "to a much greater extent than other interests . . . contributed both toward keeping down the cost of living in Canada and providing cheap food for Britain. A much larger payment than was made would have been necessary to offset that undue contribution."

Whatever personal judgments may be passed on the British Wheat Agreement, the circumstances which led to its signing were, indeed, exceptional. The problem of re-absorbing one and three-quarter million people into peace-time employment from the services and war industry, the associated problems of inflation, the problem of subsidized American production and of the return to European protectionism stimulated by high prices, the problem of the dollar shortage and its implications for European protectionism, the problem of maintaining a volume market should a general recession follow an inadequate solution to the manifold post-war difficulties, and the willingness of western farmers in the light of their pre-war experience to pay an insurance premium in the form of reduced prices for a measure of security — all these considerations influenced the formulation of post-war wheat policies.

The trade was unhappy about the Agreement, both as a commercial proposition and because the Agreement required the statutory extension of compulsory marketing well into the post-war period. Indeed, compulsory marketing was not only extended but broadened. As a result of a prairie-wide campaign, supported by the provincial governments, oats and barley were brought under the control of the Canadian Wheat Board in 1949. The Canadian government, on the other hand, no less than the farmers, retained painful memories of pre-war surpluses, production subsidies, and cut-throat competition in wheat export markets. They looked eventually to an international wheat agreement to prevent the re-emergence of excess capacity and a return to the conditions of the pre-

war years. But the United States would not support an international wheat agreement while the market retained its post-war buoyancy. This may well have influenced the Canadian government to accept a bilateral agreement with its best customer in order to secure a volume market of vital importance to wheat farmers and to the nation should pre-war conditions again threaten.

Finally, the need was imperative for wheat policy to contribute its share to the success of post-war economic policy. The fact that few countries managed their reconstruction programs more smoothly and with less distortion to the structure of internal prices at least suggests that wheat policy did make a substantial contribution to the attainment of the major goals of post-war policy. Farm and trade opinion, however, were united in the view that post-war wheat policy had, in fact, imposed a severe and discriminatory burden on the western farmer.

International Wheat Policies: Surpluses in the Midst of Prosperity

Canada's domestic and international wheat policies during the period of post-war wheat shortages were influenced by fears of a return to conditions of world wide wheat surpluses. The price restraint which these policies imposed on Canadian wheat growers was not duplicated in most other wheat growing areas. In the United States during the years of high prices and post-war shortages farmers enjoyed the full benefit of world prices and of adequate markets assured through the Marshall Plan. In Europe agricultural expansion was encouraged in order to increase domestic food production, to increase farm income and to reduce pressure on the balance of payments. When post-war shortages gave way to surpluses Europe continued to encourage and protect her agricultural production while the United States supported domestic prices above the declining world levels, maintaining exports by means of subsidies. The world had bitter experience of surpluses during the depression. Now a new phenomenon was emerging — a decade of surpluses in the midst of prosperity.

The danger did not become imminent until 1949 when European wheat production had substantially recovered from the effects of war. However, just as balance seemed about to be restored to the world wheat economy, demand for wheat was greatly strengthened by the Korean War which in turn gave a further impetus to United States and European wheat production. At the same time, between 1951 and 1953 Canada harvested three phenomenally large crops. After nearly five years of high prices and post-war

shortages, and a further three year extension of the sellers' market by the Korean War, the world wheat economy was again thrown into serious imbalance with surpluses becoming the major problem of wheat policy.

In the light of the experience of the 1930's increasing efforts were made to achieve, through international co-operation and agreement, some solution to conflicting national wheat policies. Efforts were made through the United Nations to expand world demand by such means as the creation of the Food and Agriculture Organization and by proposals for the establishment of a world food bank or an International Commodity Clearing House. Multilateral attempts to increase demand had only slight success and it was not until 1962 that a limited version of the world food bank was finally organized. Bilateral programs to expand consumption were far more successful and surplus disposal became a dominant feature of the wheat trade, seriously impairing commercial markets and basically altering the environment within which future trade and market policy must operate.

Programs concentrating upon influencing the level and stability of world demand were too inadequate and too slow of realization to solve problems associated with excess capacity in the world wheat economy resulting from national policies to expand production. The existence of excess capacity required structural rather than marginal adjustments in the wheat growing areas of the world since demand was obviously incapable of absorbing the surplus stocks. Such adjustment was not attempted through the open market for a very obvious reason. Since the high-cost importing and exporting countries were in a position to protect themselves from the effects of declining world prices, almost the entire pressure of such prices would have fallen with disastrous consequences on the highly efficient, but exposed, exporters like Canada, Australia and Argentina. Most nations were, in fact, no longer willing to accept the judgments of world prices which provide the only criteria on which international specialization and trade on the basis of comparative advantage can take place. In these circumstances it became a matter of urgent necessity to find, if not a solution, at least some means of international agreement to prevent the most disruptive effects of national policies and to enable the world wheat trade to be carried on with some semblance of order.

The International Wheat Agreement of 1949 did not attempt to

restrict either production or exports as did the 1933 Agreement. It provided for a non-restrictive multilateral contract of purchases and sales designed "to assure supplies of wheat to importing countries and markets for wheat to exporting countries at equitable and stable prices" and "to overcome the serious hardships caused to producers and consumers by burdensome surpluses and critical shortages of wheat." In effect the object of the "Agreement" was to provide an environment which would help the price mechanism to fulfill its role in the adjusting process while reducing the income fluctuations which inhibit individual attempts to adjust.

The 1949 International Wheat Agreement adopted the concept of "guaranteed quantities" at a time when wheat was generally in short supply. Under this Agreement member exporters undertook to sell to participating importing countries as a group, a "guaranteed quantity" of wheat in each crop year at prices not higher than the maximum, and each participating importing country undertook to buy from participating exporting countries, as a group, a "guaranteed quantity" of wheat in each crop year at prices not lower than the minimum.

This concept worked comparatively well during the first Agreement since, while prices remained at the maximum, the primary function of the Agreement was to allocate limited supplies. During the subsequent Agreements of 1953 and 1956 an increasing number of countries came to view the concept of guaranteed quantities as unrealistic since it did not allow for varying import requirements in accordance with variations in domestic crops. Exporting countries also began to see that the primary function of the Agreement had ceased to be allocative and had become one of providing reasonable price limits within which competitive commercial trade could take place without the danger of disastrous price-cutting, always present in a situation of heavy surpluses.

In view of the growing ineffectiveness of the 1949 type of Agreement and in recognition of the increasing proportion of the world wheat trade moving on a surplus disposal rather than on a commercial basis, guaranteed quantities were abandoned in 1959. Under this new Agreement, renewed without fundamental change in 1962, while world prices are within the price range, each importing country undertakes to purchase from member exporting countries during each crop year not less than a specified percentage of its total commercial purchases of wheat, and the exporting

countries undertake, in association with one another, to supply all the commercial requirements of the importing countries. At the maximum price each exporting country has the obligation to supply wheat up to an amount equal to the average volume of commercial purchases made from it by the importing countries over a period of years, while importing countries may, at the maximum price, demand of exporting countries the average of recent commercial purchases made by them from the exporting countries. The Agreement is not only a more flexible arrangement designed to encourage commercial trade in wheat but it also embraces through its annual review the whole of the international trade in wheat.

The International Wheat Agreement is undoubtedly a stabilizing influence in the international wheat trade. However, nations remain reluctant, even within the more favourable context of a multilateral wheat agreement, to accept world prices as the only criteria on which trade on the basis of comparative advantage can take place; carried far enough this means the problem of surpluses is without solution except the solution of the survival, not of the most efficient and the lowest cost producers, but of those who for various reasons can secure the greatest measure of protection and subsidy from their governments. Under such conditions Canadian wheat farmers stand to lose more than those of most other countries. In terms of productive efficiency and quality of product Canadian wheat growers are without peers. They can compete successfully with wheat growers anywhere, but not with governments with the financial power of the United States or the protective ability of European importers. Therefore, Canadian wheat policy must continue to seek, through bilateral and multilateral discussion and agreements, the protection of Canada's commercial wheat markets. It must be alert to both the opportunities and dangers lurking in new developments such as the growth of economic regionalism. Canada must maintain the principle that her essential interests demand the constant encouragement of trade on a multilateral commercial basis. In the pursuit of these interests the market remains what it has always been, the essential means for expanding trade on a fair competitive basis. While the structure of the market has slowly changed throughout the 80 year history of the Canadian grain trade, its function has not changed and the initiative and enterprise of the members of the trade remain as vitally important today as at any time in the past.

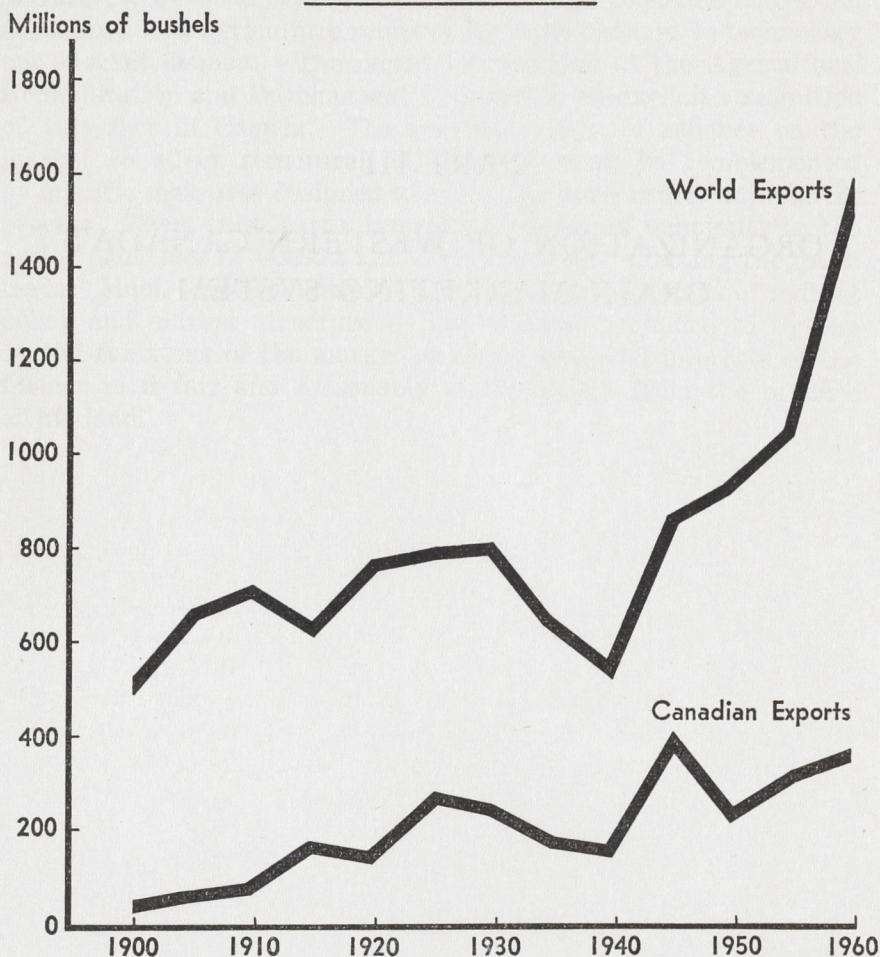
Governments, farmers and traders must never under-rate or

undermine the essential functions of the market. At the same time they must not fall into the opposite error of thinking it to be a panacea for all the economic and social problems associated with the marketing and production of wheat. If commercial trade in wheat is to proceed on an orderly basis, present day realities of government intervention require market stabilizing arrangements such as the Wheat Agreement. As far as production is concerned market prices alone cannot effect the difficult economic and social adjustments in agriculture required by rapid changes in technology and market demand. The recent introduction of the Agricultural Rehabilitation and Development Program is an explicit recognition of this fact in Canada. The previous policy of reliance on the market to effect structural adjustments must be complemented by specific measures designed to assist the agricultural adjustment process. There is at least a remarkable degree of unanimity on the major principles of market and economic policy affecting the grain trade. Much scope remains for discussion on the details of market policy and market structure — but without prejudice to the essential functions of the market or to the essential interests of the farmer in a fair and reasonably stable return from the produce of his land.

PART III

ORGANIZATION OF WESTERN CANADA'S GRAIN MARKETING SYSTEM

CHART IX
Canadian and World Wheat and Wheat Flour Exports
Selected Years 1900-1960



Chapter 5

THE ROLE OF THE WINNIPEG GRAIN EXCHANGE

THROUGHOUT its seventy-five year history, the objects of the Winnipeg Grain Exchange, as defined in the Constitution of 1908, have been —

To organize, establish, and maintain an Association not for pecuniary profit or gain, but for the purpose of promoting objects and measures for the advancement of trade and commerce respecting the grain trade for the general benefit of the Dominion of Canada.

To compile, record, and publish statistics, and acquire and distribute information respecting the grain trade, to promote the establishment and maintenance of uniformity in the business, customs and regulations among the persons engaged in the grain trade, to inaugurate just and equitable principles in trade and generally to secure to its members the benefit of legitimate co-operation in the furtherance of their business and pursuits.

In pursuit of these objects The Winnipeg Grain Exchange provides essential facilities for its members to trade and carry out many of the other necessary transactions related to the movement of grain. Its operating expenses are met primarily by assessments on members and to a very minor degree by the sale of services such as the provision of market information.

As a voluntary association it has no charter or articles of incorporation, and membership is open to anyone whose credentials, financial and ethical, are satisfactory to the members of the Exchange.

The Winnipeg Grain Exchange lays down the conditions under which trading in grain shall be conducted on the Exchange. The sanctity of these rules and regulations and conditions of trading is vigilantly maintained. Any violation is dealt with by censure, fine, suspension or expulsion.

Membership of the Exchange includes representatives of country line elevators, the three Western Wheat Pools, United Grain Growers Limited, Western and Eastern terminal elevators, shippers and exporters, millers and other processors, grain and feed merchants, The Canadian Wheat Board, cash and futures brokers, banks, railway companies, vessel owners, commission merchants, and foreign grain companies which, together, do business in every part of the world. Those members who are not dealers or traders in grain are nevertheless directly concerned in the marketing of grain. Banks are concerned with the financing of the crop movement. Vessel owners are members because the Exchange is the market place for lake freight. Railways form the essential mode of transport for the movement of grain to ports.

No grain dealer, country or terminal elevator company, exporter, miller, banker, forwarder, insurance, railway, or shipping agent or any other participant in the grain trade is obliged to be a member of the Exchange. The Exchange exists solely for their convenience and while they are not obliged to be members they find it beneficial to be able to use the facilities. The Exchange provides the focal centre — the market place — where buyers and sellers may meet directly, or if they so wish, contact other parties concerned in the movement and marketing of grain.

Whatever the effects of technological and social change might be on the details and methods of the marketing process, the essential relationship of supply and demand the world over, requires a continuing market place where all concerned in the processes can meet. The imperative need for such a market place has been demonstrated throughout the course of human history. The structure of the market might change from the most primitive to the most sophisticated but the need remains unchanged.

The Winnipeg Grain Exchange provides two types of market, that is a physical or spot market for immediate delivery and a futures contract market in which trades in commodities for delivery at a forward date may be made. These two market functions are distinct and separate although each is necessary to the other in order to serve the producer, the consumer and the public interests efficiently. In addition to these two markets, The Winnipeg Grain Exchange provides certain physical facilities for use of its members and for those who deal in grain through members of the Exchange. It provides a Trading Room where buyers and sellers, and all others concerned with the marketing of grain, may

meet on each and every business day of the year. The Exchange provides continuous quotation service from all other important markets in other parts of the world; and it provides information from every available source regarding crop and weather conditions, grain movement, grain stocks in commercial storage and in other positions; information regarding the loading and movement of grain carriers in the Lakes and forward to seaboard. In addition, it posts all data supplied by the Board of Grain Commissioners; Dominion Bureau of Statistics and The Canadian Wheat Board. It maintains a library where statistical material is available for the use of all members and the public in general.

The Canadian Wheat Board and all its eastern agents are members of the Winnipeg Grain Exchange and a sizeable proportion of the sales contracts are made subject to the rules and regulations of the Exchange. Rye, flax and rapeseed, and important quantities of oats and barley, are sold through the futures, as well as the cash, market. Although wheat is not now sold through the futures market, The Canadian Wheat Board maintains representatives on the trading floor as the most logical and convenient point of contact with its agents, who are also members of the Exchange. The Board announces its selling prices for the various grades of wheat for shipment from the various export outlets in Canada after the close of the Winnipeg market each day. These prices, which generally remain unchanged until the close of the market on the next day of business, are the prices at which the Board will provide wheat to its agents to fill sales in the domestic and export markets.

The role and importance of the Winnipeg Grain Exchange are dealt with in a Wheat Board publication "The Canadian Wheat Board, Why and How it Works," prepared by W. Riddel, Assistant Chief Commissioner of the Board. In discussing the role of the Exchange, Mr. Riddel states:

"It should be stressed again that the Board utilizes the services of the various segments of the grain trade to the extent that it considers it to be to its advantage to do so. Sales made by the Board are made under the Rules and Regulations of the Winnipeg or Vancouver Grain Exchanges because the Rules of these institutions have been formulated for the purpose of dealing in the various grains, are well defined and are thoroughly understood by all interests concerned in the purchase and sale of grain. Similarly, and for the same reasons, the contracts of the London Corn Trade

Association are generally used by our agents in selling grain in the international markets. In the case of selling operations covering oats and barley, the Board usually disposes of these grains in terminal positions; i.e., the Lakehead or Vancouver. To the extent that it finds it of advantage to do so, it will utilize the futures market of the Winnipeg Grain Exchange in selling oats and barley."

"The Winnipeg Grain Exchange is of considerable importance to the Board in two respects; firstly, it provides a market place where buyer and seller can readily get together and, secondly, and perhaps more important, it provides a mechanism by which the forces of supply and demand act for the purpose of determining day to day prices. The futures market prices for oats and barley are generally used by the Board in determining its sales prices for these grains, most of which are sold for consumption in the domestic or United States markets."

In the marketing process the role of Government is primarily regulatory with the actual marketing arrangements remaining very largely the function of the many persons and organizations who make up the grain marketing system. Past history has demonstrated to all, to traders as much as to producers and Governments, that without regulation the attempt to relate supply to demand through unregulated commodity markets results in instability in price. This in turn not only causes hardship to the producer, but may result in inefficiencies and dislocation in the trade and in grave domestic and external problems for Governments substantially dependent upon such trade. For these reasons there is now general agreement that some improved and gentler supply — price — demand — relationship is essential. Indeed the trend throughout history of the Western Canadian Grain Trade has been in this direction.

Trading on The Winnipeg Grain Exchange has from the beginning always been subject to certain regulations which the members voluntarily imposed upon themselves. Through the Board of Grain Commissioners, grades and standards were made subject to regulation. Later, through The Canadian Wheat Board, the mechanism of price determination was brought under the moderating influence of regulation and control for certain grains.

The Winnipeg Grain Exchange provides a mechanism for the efficient marketing of Canada's grain. As a market place it has

no axe to grind, no vested interest to maintain. The level of price of any grain at any particular time is of no prime concern to the Exchange as a body as its members are both buyers and sellers. It is interested solely in the efficient marketing of Canada's grain in the best interests of the farmers, the trade and the nation as a whole. It maintains that these are mutual, not conflicting, interests. It keeps an open mind for ways and means of improving the marketing system. The Exchange as an institution and its members, under the compulsion of the stiffest kind of competition, will always strive to reduce the difference between the price paid to the farmer and the price paid by the ultimate consumer. It will strive to secure and maintain Canada's rightful place in the growing grain markets of the world.

Chapter 6

THE ROLE OF THE TRADE

Country Elevator System

THE trade is involved at every stage in the movement of grain from Canadian farms to consumers in domestic and overseas markets. The first segment of the grain trade to be involved in this process is the country elevator system which includes both company-owned and co-operatively-owned elevators. In 1962 there were 5,220 licensed public country grain elevators in Western Canada with a combined storage capacity in excess of 367 million bushels. Of this storage over 98 per cent was controlled by the 12 largest firms.

Number of Elevators and Storage Capacity of Firms with more than 10 Elevators as of August 1, 1962

Elevator Firms	Number	Storage Capacity (including annexes)
Saskatchewan Wheat Pool	1,249	86,078
United Grain Growers Limited	770	55,235
Alberta Wheat Pool	554	42,275
Searle Grain Company Limited	458	29,432
Federal Grain Limited	445	26,000
Pioneer Grain Company Limited	441	35,115
Manitoba Pool Elevators	344	23,135
National Grain Company Limited	314	22,357
Alberta Pacific Grain Company Ltd.	304	22,488
Paterson & Sons Limited, N. M.	105	7,620
McCabe Grain Company Limited	88	5,862
Parrish & Heimbecker Limited	65	4,472
Ellison Milling & Elevator Co. Ltd.	18	1,699
Weyburn Flour Mills Limited	18	1,415
Inter Ocean Grain Company Limited	12	1,046
Others	35	3,085
 Total	 5,220	 367,314

Since 1949 country elevators have taken delivery of the three major grains on Wheat Board Account. The forward movement of grain to terminal positions at the Lakehead, Pacific Coast ports, Churchill, and interior and domestic mills is controlled by the Board, as is the movement of wheat to Eastern Canada. The Wheat Board attempts to make the best use of available space in terminal and forward positions to resolve the sometimes conflicting necessities of servicing market requirements and equalizing to the extent possible, the delivery opportunities of producers. Shipping orders are allocated to the various companies on the basis of grain receipts obtained by their elevators during the preceding twelve months.

Remuneration for the market service provided by the elevator companies is determined largely by the handling and storage charges permitted on the three major grains and consequently by the competitive success of the individual company in securing the patronage of the producer. Annually, owners of country elevators sign a Handling Agreement with the Wheat Board under which they agree to accept delivery and make payment to the producers for the grain on the basis of the authorized initial payment. For this service the elevator companies are authorized to make a deduction from the purchase price of the grain of a handling charge which has been agreed upon with the Board. Storage rates are also provided for in the same agreement.

Merchandising of Grain

Once the grain is in position an effort is made to employ all available agencies and services which, in Canada's combined public and private enterprise marketing system can usefully contribute to sales. The merchandising of Canadian grain and particularly wheat is, in the words of the Wheat Board publication cited previously, "a combined and complex operation involving the Board and its overseas offices, the entire Canadian grain trade in all its various functions, the railways and lake steamship companies, the Trade Commissioner Service and, in some instances, the Government of Canada." The Board enters into agreements with the shipping and exporting segments of the trade under which they undertake to act as agents of the Board to facilitate the merchandising of wheat in the markets of the world. In this capacity some 40 companies act as agents of the Board. The Wheat Board publication succinctly describes the role of shippers and exporters in the sale of Canadian wheat as follows:

"The value of the shippers and exporters in this connection is due to their knowledge of the domestic and export trade in grain and especially to the fact that the firms concerned are represented, either by direct office or otherwise, in practically every country in the world which imports grain. This branch of the grain trade represents a highly developed form of enterprise, alert and keenly competitive. The success in business of the companies engaged in export depends upon their ability to sell grain in overseas markets in competition with others, and this requires considerable skill, knowledge and experience. The Board has considered their services most valuable in offering wheat for sale abroad."

Companies associated with the grain trade include not only grain merchants, who themselves may be specialists or may engage in a number of the merchandising functions, but also include all those individuals and firms associated with functions supplementary to the actual merchandising of grain. These supplementary functions include such activities as financing, insuring, transporting and processing. No matter what activity a company might engage in, its success, indeed its survival, depends upon judgment, initiative and enterprise. This is true whether it functions primarily as an agent of The Canadian Wheat Board or acts as a principal in grain marketing transactions. In substantial areas of the grain trade, companies who are agents of the Board may still act as principals. Exporters who operate as principals and search out markets in various parts of the world depend upon their own ability and acumen for their livelihood, and in so doing gain a great deal of valuable knowledge relative to world grain marketing matters. These companies are most valuable as information gathering centres for The Canadian Wheat Board.

The Futures Market

The futures market remains a vital part of Canada's grain marketing system. It is not only employed in the sale of rye, flax and rapeseed, but it is also used to a considerable extent by The Canadian Wheat Board as a matter of convenience for the sale of oats and barley. The futures market was designed to reduce and, in fact, does reduce to a minimum the risk of adverse price damage. It achieves this purpose by providing hedging facilities. In brief, a

"hedge" consists of a sale of grain futures on the futures market against an equivalent amount of grain purchased elsewhere, or a purchase of grain futures in the futures market against an equivalent amount of grain sold elsewhere. The hedger who buys grain futures does so to insure against a rise in the price of grain for which he has made a contract of sale, while the hedger who sells grain futures does so to insure against a decline in the price of grain he has purchased. They are merchants, not speculators, and by the process of eliminating any significant risk of price change, they are able to reduce to a minimum the difference between the price paid to the farmer and the price paid by the ultimate consumer. In this process the speculator plays a part by giving the market fluidity in both the short and long term.

The efficient operation of the futures market requires the services of various specialists. A grain commission merchant acts primarily on behalf of non-members or non-resident members of the Exchange; he handles both documents and cash on his client's behalf. In contrast brokers act in transactions between resident members, but do not handle either grain documents or cash. While the commission merchant is responsible to his client for the efficient conduct of business on his behalf, he is also regarded by the Exchange as a principal in any contracts of sale or purchase he may make in the futures market. The Rules and Regulations of the Exchange ensure the highest standard of business ethics in the transaction of business on behalf of clients. No member, for example, is allowed to buy or sell for his own account any futures which a client may instruct him to sell or buy in the futures market.

Futures brokers or "pit brokers" to use a trade term, execute orders received from resident members of the Exchange to buy and sell grain futures. Under the Rules of the Exchange these purchases or sales must be made openly in the pit, without discrimination as to who is the second party to the trade. As a specialist in buying and selling futures, his knowledge of trading values enables him to secure the best results in making purchases or sales on behalf of his client.

The Cash Market

The Winnipeg Grain Exchange also operates a cash grain market independently of the futures market. Cash grain brokers act as intermediaries between resident buyers and sellers of specified

grades of grain. The cash broker's intimate knowledge of the supply and demand position of particular grades enables him to indicate accurately what any grade is worth in relation to the futures quotation.

Since 1943, when wheat ceased to be sold through the futures market, the role of specialized traders has been narrowed. They remain, however, essential to the efficient operation of the cash and futures market which the private trade and the Canadian Wheat Board find valuable and, indeed, necessary in the marketing of Canada's grain.

The Lake Shippers' Clearance Association

The Lake Shippers' Clearance Association is a mutual association of grain shippers. Organized in 1909, it operates as a clearing house for grain documents, somewhat on the principle of a bank clearing house.

The Association is essential to the efficient marketing of Canada's grain. There are 27 grain elevators on the waterfront at Fort William and Port Arthur and two on tracks not accessible by boat. Warehouse receipts issued by any elevator under the authority of the Board of Grain Commissioners for Canada and declared "regular" by the rules of the Grain Exchange can be tendered in satisfaction of any purchase of grain. When a shipper buys a cargo of grain the warehouse receipts are delivered to him and may represent grain in many different elevators on the waterfront as elevators unload cars of grain every day and the warehouse receipts are continually coming onto the market. If the shipper had to pick up the actual grain against which the warehouse receipts were issued he would have to move his boat from elevator to elevator. The exchange of warehouse receipts through the clearing association means that the shipper can pick up his cargo from a minimum number of elevators. This greatly simplifies grain handling and reduces cost.

There are presently 50 members in The Lake Shippers' Clearance Association. Without the service of the Association to the grain trade, the terminals and the transportation companies, the shipping and transporting of Canada's grain would be infinitely more difficult, complicated and costly.

The Winnipeg Grain and Produce Exchange Clearing Association Limited

Prior to 1901 a number of grain merchants in the west endeav-

oured to protect themselves against changes in the price of grain they had purchased in the country through hedging their purchases in the Chicago market. It became apparent that the merchants could not satisfactorily place hedges in a market on which they could not make delivery of the grain they had purchased. This resulted in the establishment, through The Winnipeg Grain Exchange, of a Futures Market where such grain could be hedged and where futures contracts could be completed by the delivery of and payment for the grain in question. With the establishment of the Futures Market, some members of the Winnipeg Grain Exchange decided to establish a Clearing Association for the purpose of (1) more efficiently and economically balancing the daily transactions in quantity and price, and (2) giving the additional security of a central authority to such futures contracts.

Since 1904 the Winnipeg Grain and Produce Exchange Clearing Association Limited has been rendering to its members, all of whom are members of The Winnipeg Grain Exchange, a service similar to that rendered to the banks by the bank clearing house. In particular, the Association facilitates the handling of the large volume of transactions of the Grain Exchange, by (1) relieving members from the task of depositing margins between themselves in the cumbersome forms which would otherwise be required, and (2) by guaranteeing the fulfilment of each contract through, as far as its members are concerned, becoming the buyer to the seller and the seller to the buyer.

The Shippers and Exporters Association

The Shippers and Exporters Association of The Winnipeg Grain Exchange is a voluntary association of firms and corporations engaged or directly interested in the business of shipping and exporting grain. The object of the Association is to promote the grain shipping and exporting trade by the co-operation of its members in any or all matters of general concern.

A good deal of the Association's time and effort is expended in representing shippers' and exporters' interests with respect to administration of agency agreements between the shippers and exporters and The Canadian Wheat Board, including liaison with The Canadian Wheat Board and the Department of Trade and Commerce. The Association is also concerned with the effect of Canadian grain marketing policies on the movement and marketing of grain. It initiates and carries out enquiries and studies directed toward the clarification of issues that arise from time to time

among its members and between shippers and exporters as a group, The Canadian Wheat Board, the Board of Grain Commissioners and other government bodies. Such efforts are found to be beneficial to all concerned.

The Shippers and Exporters Association is composed of representatives of 26 companies including public, private and foreign firms as well as those companies owned by producer organizations.

The Trade in a Changing World

The world today has changed almost out of recognition from that which existed before World War II. This is as true of the grain trade as it is of the technology of air and space travel. Today we live in a world of fixed or supported national wheat prices, of world wheat prices stabilized by means of an international agreement and of national marketing organizations like the Canadian Wheat Board which are strong enough to exert a powerful influence on prices but which, at the same time, have to meet competition in the markets of the world.

These changes have brought both gains and losses. Producers appreciate the income effects of price supports and enhanced stability of prices. The majority of farmers continue to support the Wheat Board system of marketing as a means to these desired goals. At the same time the chronic world surpluses of the last decade have resulted from many of these same national price support and marketing policies designed to raise and stabilize farm income levels. This contradiction between the aims and some of the consequences of national policies does not mean that the goal of stability is any less valid or important. It does mean, however, that the consequences of over-stimulus to production must be faced and that the conflicts between income and market policy must be resolved.

The excesses and errors of production policies cannot all be corrected by market policies or by measures designed to expand demand. In many countries agricultural adjustment policies are essential to a rational and economic use of resources without which there can be little hope for a reasonable equilibrium in the international grain trade. Such policies will not come easily or quickly and while surpluses exist international competition for markets will inevitably be intensified. In these circumstances, and in any others which can now be foreseen, a vigorous and vital role remains for the trade in the sale of Canada's grain in the markets of the world.

*Chapter 7***THE ROLE OF THE FARMERS' CO-OPERATIVES**

HISTORICALLY the farmers' co-operatives have played an important role in the regulation of the grain trade, in the establishment of the Canadian Wheat Board and, in short, in the development of the Canadian grain marketing system as it exists today. With its beginning dating back to 1906 the United Grain Growers Limited was the first of the co-operatively-owned elevator companies to influence the thinking and the activities of the organized trade. Since their brief experience in merchandising their own grain, the Pools have also functioned simply as co-operatively-owned elevator companies. Today these farmer-owned companies add the element of co-operative enterprise to those of private and public enterprise in Canada's system of grain marketing.

The Wheat Pools

The Saskatchewan Wheat Pool is controlled by its 85,000 farmer members through 167 delegates which are elected annually from 16 districts. The delegates from each district, in turn, elect one of their members as a director. Monthly meetings of the 16 elected directors are held to review business operations and determine policy. The Saskatchewan Wheat Pool handles over half of the wheat produced in that province and has branched out to other fields including milling, livestock marketing, vegetable oil processing, and publishing. The Alberta Wheat Pool, owned and controlled by 50,000 farmers, is organized on lines similar to the Saskatchewan Wheat Pool. It has placed considerable emphasis on seed marketing, primarily because of the heavy production of seeds in the Peace River area. Manitoba Pool Elevators is differently organized. It is composed of 225 local organizations owning some 351 country elevators. In contrast to the central control of the other provincial Pools, these associations are independent and financially responsible for their own operations. The Pool acts as the buying and selling agency for the local associations. It assesses each association a proportionate share of the marketing cost

based on the quantity of grain delivered and distributes profits accruing to the operation of the pool.

United Grain Growers Limited

Starting as a commission firm in 1906 the United Grain Growers is today Canada's second largest grain company and is owned by over 50,000 farmer stockholders. These stockholders are organized into 320 locals. Delegates from these locals attend an annual meeting where they review company operations, decide on policy and elect directors from among themselves.

Apart from their characteristic as co-operatives, these farmer-owned elevator companies function in a manner very similar to the other companies. Extremely keen competition exists among the elevator companies, a fact which is of great value and benefit to producers. The co-operatively-owned companies are, along with the other elevator companies, members of The Winnipeg Grain Exchange. Their role and the role of all elevator companies is to serve the producers who patronize their elevators and, as part of the total Canadian grain marketing system, to play their full part in the efficient marketing of Canada's grain for the ultimate benefit of the farmer and the nation.

*Chapter 8***THE ROLE OF THE CANADIAN WHEAT BOARD****Producer Marketings**

UNDER authority of the Canadian Wheat Board Act, the Canadian Wheat Board is the sole marketing agency for wheat, oats and barley produced in Western Canada and, in addition, has extensive powers to control the movement of other grains. The Board enters into annual handling agreements with country elevator companies to take delivery of producers' grain and make payment on the basis of the authorized initial payment which, in effect, becomes the producers' floor price. The initial payments for the basic grades of wheat, oats and barley are established annually by the Canadian Government. The Board then establishes the initial payments for other grades, subject to approval by the Government. A separate pool is established for each grain and any deficit is met out of the federal treasury. Since 1940 the Board has suffered no deficit in its pooling operations except in one year when a small loss was incurred in the marketing of oats. To ensure that producers enjoy reasonably equal delivery opportunities, the Board establishes grain delivery quotas which are adjusted upwards as additional space becomes available. In the spring of 1962, after severe drought and exceptionally large marketings reduced grain surpluses, open delivery quotas prevailed in Western Canada for the first time in a decade.

Control of Grain Movement

The Wheat Board controls the movement of grain from country elevators to terminal and export positions by means of shipping orders issued to the various elevator companies. In its control of grain movement the Board must take into account the availability of space in terminal and forward positions, the need to service immediate and short-term market requirements for specific grains and grades, the importance of planning movement ahead so as to ensure efficient operation by railways, and the desirability, so far as it may be consistent with the requirements of sound merchandising, of equalizing the delivery opportunities of producers and of utilizing all available space in country elevators to permit maximum deliveries.

The Board allocates shipping orders to the head offices of different companies on the basis of grain delivered at their elevators during the preceding twelve month period. The elevator companies, in turn, are primarily responsible for distributing shipping orders among their different delivery points though such distribution is subject to the approval of the Board. Railway companies are kept informed of all shipping orders issued. They distribute box cars among the elevator companies at the various shipping points on the basis of the number of shipping orders held by each company at the point, subject to out-of-order shipments for the relief of congested elevators and the preference which from time to time must be given in the shipment of certain grains and grades to meet immediate market demands. As a corollary of such preference, prohibitions may on occasion be necessary where any grain or particular grade happens to be in over-supply in forward positions.

The Marketing of Grain

Under the Canadian Wheat Board Act, the Board is not only obliged to market grain in interprovincial and export trade but, in doing so, it must meet world wide competition and make every effort to maintain and extend the markets for Canadian grain. In carrying out this task the Board has always considered it necessary to make full and consistent use of the shipping and exporting segments of the private trade. While the great bulk of Canada's export trade in grain is originated and handled by traders acting as agents of the Board, there are cases in which foreign governments or their agents prefer to deal directly with the Board in the purchase of grain. Even in these cases in which the Board completes master sales agreements, agents still play an important role since, in many cases, supplementary contracts are entered into between them and the buyer concerned. The role of the agent then becomes the same as if he had originated the sale. In its recent publication previously referred to, the Board explains its attitude towards its agents as follows:

“. . . It (the Board) will not enter into direct competition with its own agents in sales to other importers, but it does encourage competition among its agents. To enter into competition with its agents would be most unethical as agents do not receive a commission on sales from the Board but must rely on what they can earn by obtaining a sales price in excess of what they pay to purchase the wheat from the Board, which is the Board's asking price at the time of purchase.”

Despite the fact that the keenest kind of competition keeps the earnings of exporters to a minimum, since the removal of worldwide wartime restrictions on the grain trade the actual sales made directly by Board agents have continued to increase in relation to total cash sales. In other words, the role of the trade in marketing Canada's grain in cash markets at home and abroad is continuing to increase. At the same time the growth of credit sales in recent years has increased the volume of wheat which the Board sells under master sales agreements.

Wheat Pricing Policy

At the close of the Winnipeg market each day, the Board announces its selling prices for the various grades of wheat for shipment from the various export outlets. These prices, which are generally good until the opening of the market on the next day of business, are the prices at which the Board will provide wheat to its agents to fill sales in the domestic and export markets. Among the considerations affecting the Board's selling prices are the wheat prices of competitors, the level of United States export subsidies, the relative qualities of Canadian and other wheats, the relative supplies of each type and grade of wheat, the relative prices from different Canadian port areas and variations in ocean freight rates and foreign exchange rates.

The Canadian Wheat Board has noted that "The test of the effectiveness of Board pricing of wheat is the volume of commercial sales obtained in relation to total commercial sales made by all exporting countries." The fact that Canadian commercial sales in recent years have been around 40% of total commercial sales — by a considerable margin the largest share of any exporting country — suggests that Wheat Board pricing policy has been reasonably sensitive to market changes and that the grain trade of Canada has been alert to market opportunities throughout the world.

The Pricing of Coarse Grains

When it finds it advantageous to do so, the Wheat Board utilizes the futures market of The Winnipeg Grain Exchange in selling oats and barley. Although the Board markets considerable quantities of coarse grains on a flat basis, the futures market prices for coarse grains remain the determining factor since they are generally used by the Board in establishing its sales prices for these grains. Since the great bulk of western oats and barley en-

tering commercial channels is sold for consumption in the domestic market, with important quantities at times going to the United States and Europe, it is particularly convenient for the Board to be able to rely on market-determined prices. Since such prices are determined by the prevailing forces of supply and demand in the market place, they are less likely to result in feelings of discrimination and unfairness between Eastern buyers and Western producers than would more arbitrarily determined prices. In this area The Winnipeg Grain Exchange continues to play an important role in the marketing of Canada's grain.

Sales Promotion

One of the duties of the Board is the promotion of Canadian grain sales throughout the world. This is done primarily by personal contact with buyers and processors of Canadian grain. The Board undertakes frequent sales missions overseas and plays host each year to a number of visiting grain missions from abroad. By means of brochures, films, participation in trade fairs and the activities of officers of the newly established Technical Service and Market Research Department, the Board disseminates information on the quality of the Canadian crop, the grade specifications, the procedures under which Canadian grain is sold, and the baking and milling qualities of Canadian wheat.

Relationship with other Government Agencies

Trade Commissioners of the Department of Trade and Commerce continuously supply the Board with information on crop and market conditions and relevant policy developments in most of the countries which are actual or potential users of Canadian grain. The Grain Division, which is responsible to the Department of Trade and Commerce serves effectively as the liaison between the Board and the Government departments and between the Board and various domestic and foreign Government officials in Ottawa. In this function the Grain Division greatly assists the Board in its sales activities. The Board also acts in an advisory capacity to Government officials, chiefly in the International Trade Relations Branch of the Department of Trade and Commerce, on matters related to the International Wheat Agreement, the Canada-United States Quarterly Meetings on Wheat and Related Matters, and the Wheat Utilization Committee dealing on an inter-governmental basis with surplus problems. The Board, in 1962, established an office in Brussels to keep in touch with important developments associated with the Common Market.

The Board also has special responsibilities with respect to the International Wheat Agreement. Its London representatives form part of the Canadian delegation to the bi-annual meetings of the International Wheat Council, and they also attend the periodic meetings of the Executive Committee. This role is of major importance in a world where the existence of surpluses and conflicting trends in agricultural and trade policies would pose a serious threat to international trade and to the stability of the international price structure in the absence of some such framework for consultation as that provided by the International Wheat Council.

*Chapter 9***THE ROLE OF THE BOARD OF GRAIN COMMISSIONERS**

FROM the earliest years of the Western Canadian grain trade, there was increasing recognition of the need to regulate the grading and transportation of grain in the interest of farmers and of the grain trade as a whole. Effective regulation began with the Manitoba Grain Act of 1900. With the passage of the Canada Grain Act of 1912, the Board of Grain Commissioners was established to maintain strict grade standards and control the movement of grain with the dual purpose of maintaining the competitive position of Canadian grain in world markets and upholding the interests of the producer and the merchandiser.

Functions of the Board

The three-man Board of Grain Commissioners has no power or duties with respect to price. Its concern is rather with the maintenance of quality. It has jurisdiction over the grading and weighing of grain, the deduction made for dockage and shrinkage, elevator shortages or overages, the deterioration of any grain during storage or treatment, and the refusal or neglect of any person to comply with the provisions of the Canada Grain Act. On a fee basis the Board provides official inspection, grading and weighing of grain, and registration of warehouse receipts. It licenses annually all operators of elevators in Western Canada and of elevators in Eastern Canada that handle western grain for export, as well as all parties operating as grain commission merchants, track buyers of grain, or as grain dealers. The Board also manages and operates the Canadian Government Elevators, as well as maintaining a research laboratory. The Board's Statistics Branch, besides compiling and publishing basic statistics relating to storage and handling of grain, within the elevator system, has responsibility for administering, collecting, and recording the one per cent levy under the Prairie Farm Assistance Act.

Research

The Board of Grain Commissioners maintain a Grain Research Laboratory. As a centre for basic and applied research on the

traditional uses of cereal grains this laboratory is renowned throughout the world. In co-operation with the Research Branch of the Canadian Department of Agriculture, extensive tests are conducted on new hybrids developed by plant breeders. Only a few of the total number of varieties examined show sufficient improvement over accepted varieties to survive the rigid tests to qualify for licensing.

Grading and Inspection of Grain

When a farmer delivers his grain, the country elevator assigns the grade and determines the dockage. When the farmer and elevator operator fail to agree on the grade, a sample is taken in the presence of the farmer and forwarded to the Chief Grain Inspector or the inspector in charge of an inspection point. The decision of the inspector with respect to grade is final, subject to appeal under prescribed conditions to the Grain Appeal Tribunal established by the Board. The Tribunal reviews the decision of the inspecting officer and assigns the final grade to the grain in question.

As grain moves to terminals or mills an unofficial loading sample taken by the agent who loads the car, is placed inside and accompanies the car for grade checking purposes. The car is graded officially by the Board of Grain Commissioners' Inspection Branch at the terminals. All grain is cleaned before leaving the terminal and the utmost care is taken to safeguard the quality of the grain until it is loaded on board ship. Inspectors are constantly sampling grain during loading to ascertain that it is equal to or better than the minimum requirements of the grade specified.

Standard Grain Samples

Before the beginning of each crop year the Board must establish a representative and highly qualified Committee on Grain Standards to select and settle standard samples. As soon as possible after August 1st the Board collects samples of the new crop and from these prepares tentative standard samples of the statutory grades and other commercial grades as required. After reports on the milling and baking qualities have been obtained, the Grain Standards Committee is convened. The standard samples established by the Committee represent the minimum of each grade for that year. The Committee further prepares under even more rigid conditions standard export samples of the first nine statutory grades and of all commercial grades considered advisable.

Canadian Grain Sold Basis "Certificate Final"

In commodity trade a primary factor in maintaining stable markets is the buyer's confidence that he will receive from the seller the quality specified in the contract. This is particularly true when sales are made on the basis of "certificate final." This certificate issued by the Board of Grain Commissioners in effect guarantees that when a boat is loaded, the shipment represents the grade specified and that it is equal to the current Standard Export Sample of that grade. Under this system the buyer has no legal recourse if he is dissatisfied with the shipment although he may refer the matter back to the Board. For such a system of marketing to work, the seller must establish and jealously guard a world-wide reputation for, as one authority expresses it, "unimpeachable integrity and an almost infallible expertness and efficiency, both to attract new customers and to retain old ones."

The Canadian system of grading, bulk-handling and merchandising, based on long-established experience and reputation, is widely acknowledged to be the best in the world. The world-wide confidence in Canadian wheat is not only based on the high quality of the product resulting from favourable geographical and climatic factors and the careful selection and control of varieties, but it depends equally on the known uniformity from parcel to parcel within each grade. This is the fundamental task and proud achievement of the Board of Grain Commissioners.

PART IV
CONCLUSION

*Chapter 10***MEETING THE CHALLENGE**

WESTERN Canada's grain marketing system is an amalgam of many people and organizations with many and varied functions. The membership of the Winnipeg Grain Exchange provides the most comprehensive picture of this large and varied group of people and organizations which markets Western Canada's grain. In fact, the grain marketing system is made up of all interests concerned with the marketing, processing, shipping and financing of the grain. In this process, complex in detail and global in scope, a focal centre — a market place where buyers and sellers may meet — is an imperative necessity and if it did not exist it would have to be created.

Although the environment has changed over time, the function of the market remains the same, to move western grain where it is wanted when it is wanted in the precise amounts and grades that are wanted, by the most efficient and least expensive means available. We live in a world where change and competition are unavoidable facts of life. Efficiency and flexibility must be the hallmarks of any marketing system designed to meet the challenges and seize the opportunities of our living and changing world. With all its shortcomings the Canadian grain marketing system has met these requirements.

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